April 6, 2009

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: ANPR – NCUA Corporate Credit Union Stabilization Plan

Dear Ms Rupp:

On behalf of the Board of Directors and management of Eli Lilly Federal Credit Union, I would like to express our opinions and concerns regarding the structure of the Corporate Credit Union system. The recent financial performance of corporate credit unions and the actions taken by the NCUA have drawn a high degree of attention and human resources within the credit union system. It is in the best interests of all parties to determine a plan and move forward in its implementation in a timely fashion.

The following represents our thoughts on how the system should address specific portions of the corporate credit union restructuring:

Tiered System

Advances within the financial industry have rendered the two-tiered model unnecessary. With the advent of electronic banking options and better monitoring tools, the system could cut out the U.S. Central tier without a detrimental effect to the credit union system. As the number of retail corporate credit unions is paired down, there will be enough talent to manage the complex liquidity and ALM issues that face corporate and natural person credit unions. One tier of corporate credit unions will be more effective.

Number of Retail Corporate Credit Unions

The realization is that there will be no empirical basis to this number – it is a theoretical guesstimate. Twenty-six is too many and one is not enough. The number must be low enough to eliminate a significant amount of operating expense and redundancy and must be high enough to effectively serve natural person credit unions’ immense needs.

If we paired the number down to six, we could have two in each significant time zone. Much like banking in general, many credit unions appreciate a "hometown" relationship with their corporate partners and this could remain in some form. Having more than one or two corporate credit unions would still perpetuate an atmosphere of healthy competition that is the backbone of choice and creativity.

Services Provided

Corporate credit unions have traditionally played an important role for smaller credit unions and this relationship should be considered as the industry determines to "right size" the retail corporates. Certainly there should be an emphasis to continue payment systems, investment services, and ALM analysis. Losing the services a corporate credit union provides will hinder the ability for small credit unions to survive. This may have a detrimental effect on the whole industry. Fewer corporates will change some custom programs that were put in place, but in some form, there should be a solution for any legitimate credit union need.

The ability to provide liquidity to the credit union system is a key relationship and a revenue-driving endeavor for corporate credit unions. Fewer corporate credit unions may enhance the system's efficiency to broker loan participations for those natural-person credit unions in need. This could also be a revenue-generator.

Field of Membership

A corporate credit union's field of membership should be left open. The "invisible hand" of a market-based economy, while seemingly not in vogue, has been a cornerstone to competitive pricing and innovation. The credit union industry has been built on choice – the choice to join the institution that best suits one's needs. This is a tradition that will have positive outcomes and should continue.

The argument against open FOM is that it may get us right back to where we are today. Effective regulatory policy can preserve safety while encouraging organizations to find new products and better processes to improve the credit union movement.

Expanded Investment Authority

In general, the skill sets necessary to run a successful corporate credit union would have to include exceptional investment acumen. Corporates will need to invest relying upon the SLY principle (remember: Safety, Liquidity, then Yield). We expect to have some regulation placed to address recent shortcomings in investment performance. I believe I can speak for all credit unions when I say we would rather receive slightly lower yield on an ongoing basis than relive the same problems we face today.

The ability to profitably invest funds is a core competency we expect from a corporate credit union partner. I believe the Corporate Credit Unions should have access to more complex instruments than natural-person credit unions because they should have experts on staff. A certification program could be mandated and perhaps specific asset concentration levels set if the regulator feels compelled to put standards in place.

Credit Risk Management

The rating agencies have not served the financial services community well over the recent past. We need to be able to speak a common language and continue to rely on a base rating metric to continue to buy/sell products within a competitive market. The financial services industry must apply pressure to these rating agencies to better support their stamp of approval. If the rating agencies can be held to some level of accountability, performance and confidence will grow.

Concentration risk is a different animal, but no less important. Diversifying the asset allocation of any investment portfolio, whether personal or institutional, is the cornerstone to solid investment results. The regulator may feel compelled to stress test certain types of assets that are deemed to carry higher risk and place limits upon the purchase of such instruments.

Corporate Capital

This will be an interesting experiment following this crisis. A large percentage of natural person credit unions will have lost some portion of their member capital or investment within their individual corporate due to recent events. There may need to be some incentives or guarantees in place to prompt credit unions to (re)place funds into the corporate credit union system.

That being stated, consolidation should wring significant redundancies and expenses out of the system. Core capital should consist of retained & undivided earnings (RUDE) as well as Paid-in capital (PIC). Additional forms of capital should be a priority for all credit unions as we look to grow and stay competitive in this changing environment. The level of capital should be somewhere between 4%-6%. It appears it will take some time for the corporate credit unions to attain these levels. There could be a plan to grow capital (NW ratios) over a period of time where the organizations need to hit certain Net Worth levels (%) to continue to be a part of the system.

Board of Directors

In a cooperative, not-for-profit industry, this could be a controversial battle. Many directors have received non-compensatory benefits related to their Board seats.

If there is some nominal level of pay, we would not fight over the details. The key to success is to seat the most qualified, engaged, Board members an organization can find.

Regulator Communication

The conservatorship of the two largest corporate credit unions was concerning to all of us due to the harsh actions taken without the commensurate detailed reasoning to back up the decision. The action may have been completely appropriate, but there is a feeling of mistrust and anger involved due to the lack of specific details offered. Any program that will cost the system a significant amount of money needs to have more detail offered to give the constituency a feeling that the regulator is wearing the white hat.

In general, the level of communication from the NCUA has been poor throughout the first quarter of 2009. The continuing saga of the NCUA's Corporate Credit Union Stabilization Plan and how to account for it is a great example. It took the NCUA more than a week after the news broke on January 29th to provide the appropriate journal entries to credit unions – which created confusion and anger. There has been little actual guidance provided, except for the entries, which may change if Congress approves a bill to stretch out the funding of the NCUSIF.

Absolute transparency is the baseline expectation of our regulator. Leadership and forthright communication are additional requirements.

Thank you for the opportunity to share our opinions and we look forward to solving the many issues we currently face as partners.

Sincerely,

Lisa A. Schlehuber
CEO
Eli Lilly Federal Credit Union